

Audit's NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

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SPECIAL BULLETIN

SPECIAL RECOMMENDATION: AVOID NEW PURCHASES OF ALL SHORT-TERM MORTGAGE REITS

We are urging subscribers to suspend new purchases of all short-term mortgage REITs plus those long-term mortgage and equity-combination REITs which also are heavily supported by commercial paper. This action is taken because of a remarkable deterioration in the commercial paper market accompanied by a sharp rise in short-term interest rates in the two weeks since our market review dated March 25. Since that date money market conditions have increased the risk of holding shares of any short-term mortgage REIT by amounts we cannot measure but which we believe to be great. The outlook is not all clear and we have no conviction that many mortgage REITs can stand still in a portfolio sense (i.e., adopt a no growth policy) or can maintain dividends even at current reduced levels. These points are noted:

1. Short-term mortgage lending REITs relying on commercial paper are experiencing shrinkage in paper fundings. Our checks indicate the only exceptions appear to be *Chase Manhattan Trust* and *North American Mortgage* and *IDS Realty*. The shrinkage is forcing many REITs to use their bank lines, many times calling on backup lines not often used. The commercial paper market of the past week has been a snakepit of rumors, reports of rating changes and withdrawals, collapses of Eurodollar back-up facilities, etc. Those that can be checked have turned out to be false or exaggerated. All this has clouded the outlook for mortgage REIT share holders and we do not believe subscribers should expose themselves to the greatest risks of devastating surprises.

Commercial paper is the most volatile of REIT financing sources and our computer studies show commercial paper grew by nearly 27% from \$3.06 billion to \$3.88 billion as of the latest quarterly reports. This doubtless will shrink in coming months. Trusts using commercial paper from among the 100 largest REITs are listed on the reverse side from our companion REIT INSTITUTIONAL SERVICE. Tally is based on latest reported quarters shown (e.g., 7311 for Chase Manhattan is November 1973's quarter).

2. The special situations for two highly visible REITs have tended to lead lenders to generalize incorrectly about the industry, causing some adverse psychology in the money market. These situations are:

Great American Mortgage Investors, after sailing through the rough financial and real estate markets of late 1973 and early 1974 like a champion, ran afoul of pressure to lower its leverage ratio by increasing its equity base. The trust appeared ready to go forward with a preferred stock issue but its investment bankers reported the market turned 180 degrees within two weeks following our latest review (RTR, March 11). On March 28 GAMI postponed the planned convertible preferred offering and said it was seeking to sell participations in from 10% to 30% of its portfolio to other investors. On April 2 the monthly dividend was cut 38½% from \$0.325 to \$0.20. Share prices fell over 40% in two days and recovery is now a long-term proposition. The trust remains among the best in managing its real estate portfolio but that no longer is relevant; one major mis-step in

KENNETH D. CAMPBELL, EDITOR AND PUBLISHER, BERNARD SOLAS, C.F.A., DIRECTOR OF RESEARCH / AUDIT INVESTMENT RESEARCH, INC., 230 PARK AVENUE, NEW YORK 10017

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financing has cost shareholders dearly.

First Mortgage Investors, as indicated March 25, is making progress in solving its problem loans but financing remains unclear. Moody's has withdrawn the trust's commercial paper rating and a \$400 million revolving credit is being put together to take up the slack. A \$45 million Eurodollar term loan, announced last November but never finalized, is being discussed with European lenders who regard the rating change as a "material event".

That pattern is repeated in many other trusts: portfolio problems are coming under control but the uncertain financing outlook increases the risk sharply for shareholders. The recent interest rate increase can only hurt mortgage REIT earnings. The equity trusts, untouched by problem loans, are the only group we would consider for new investment at present.

TYPE 1 INTERNAL TRUSTS (N=50) RANKED ON: COMMERCIAL PAPER

NAME	TICKER	QUAR	VALUE	RANK
CHASE MANHATTAN MTG & RLTY TRUST	CMR	7311	499.70	1.0
FIRST MORTGAGE INVESTORS	FIM	7310	251.04	2.0
GREAT AMERICAN MTG INVESTORS	GAA	7310	246.49	3.0
CONTINENTAL MORTGAGE INVESTORS	CMI	7312	200.00	4.0
WELLS FARGO MORTGAGE INVESTORS	WFM	7309	167.93	5.0
GUARDIAN MORTGAGE INVESTORS	GMI	7311	166.68	6.0
CITIZENS & SOUTHERN RLTY INVEST	CZS	7312	163.39	7.0
NORTH AMERICAN MORTGAGE INVESTOR	NAM	7309	143.63	8.0
CONTINENTAL ILLINOIS REALTY	CIR	7309	139.42	9.0
IDS REALTY TRUST	IDR	7310	131.81	10.0
MONY MORTGAGE INVESTORS	MYM	7311	118.27	11.0
CONNECTICUT GENERAL MTG & REALTY	CGM	7312	85.00	12.0
C.I. MORTGAGE GROUP	CI	7310	83.99	13.0
LOMAS & NETTLETON MTG INVESTORS	LOM	7309	81.91	14.0
TRI-SOUTH MORTGAGE INVESTORS	TSI	7312	80.57	15.0
EQUITABLE LIFE MTG & RLTY INVEST	EQ	7401	79.24	16.0
FIRST PENNSYLVANIA MORTGAGE TR	FPM	7310	77.04	17.0
WACHOVIA REALTY INVESTMENTS	WRI	7311	74.00	18.0
CAMERON-BROWN INVESTMENT GROUP	CB	7309	69.37	19.0
BANKAMERICA REALTY INVESTORS	BRLTS	7310	65.27	20.0
PNB MORTGAGE & REALTY INVESTORS	PNI	7309	56.54	21.0
BUILDERS INVESTMENT GROUP	BSG	7309	52.54	22.0
NORTHWESTERN MUTUAL LIFE MTG & R	NML	7312	48.39	23.0
MORTGAGE TRUST OF AMERICA	MT	7308	47.29	24.0
BT MORTGAGE INVESTORS	BTM	7309	46.41	25.0
FIDELITY MORTGAGE INVESTORS	FID	7307	45.00	26.0
COUSINS MTG & EQUITY INVESTMENTS	CUZ	7311	44.57	27.0
DIVERSIFIED MORTGAGE INVESTORS	DMG	7309	42.70	28.0
LARWIN MORTGAGE INVESTORS	LWN	7309	41.52	29.0
CLEVETRUST REALTY INVESTORS	CTRIS	7309	36.31	30.0
FIRST WISCONSIN MORTGAGE TRUST	FWM	7309	36.11	31.0
HNC MORTGAGE & REALTY INVESTORS	HNCMS	7310	34.55	32.0
MASSMUTUAL MTG & RLTY INVESTORS	MML	7310	33.05	33.0
STATE MUTUAL INVESTORS	SMU	7312	25.26	34.0
BARNETT MORTGAGE TRUST	BMT	7309	22.09	35.0
ALISON MORTGAGE INVESTMENT TRUST	AMV	7310	18.05	36.0
INSTITUTIONAL INVESTORS TRUST	INV	7310	17.55	37.0
AMERICAN CENTURY MTG INVESTORS	ACT	7309	11.20	38.0
FIRST UNION RE EQUITY & MORTGAGE	FUR	7310	8.10	39.0
INDEPENDENCE MORTGAGE TRUST	IMTGS	7312	6.00	40.0
SECURITY MORTGAGE INVESTORS	SMO	7309	5.00	41.0
CABOT, CABOT & FORBES LAND TRUST	CFT	7311	2.78	42.0

TYPE 2 INTERNAL TRUSTS (N=50) RANKED ON: COMMERCIAL PAPER

NAME	TICKER	QUAR	VALUE	RANK
FIRST OF DENVER MORTGAGE INVESTO	FDE	7312	45.84	1.0
FIRST MEMPHIS REALTY TRUST	FMEMS	7308	40.46	2.0
MIDLAND MORTGAGE INVESTORS	MMT	7312	31.50	3.0
UNIONAMERICA MTG & EQUITY TRUST	UAT	7311	21.04	4.0
REPUBLIC MORTGAGE INVESTORS	RMI	7309	20.00	5.0
GULF SOUTH MORTGAGE INVESTORS	GSR	7309	13.64	6.0
NATIONAL MORTGAGE FUND	NMF	7311	12.50	7.0
CITIZENS MORTGAGE INVESTMENT TRU	CZM	7309	11.99	8.0
CAPITAL MORTGAGE INVESTORS	CMU	7309	10.58	9.0
BENEFICIAL STANDARD MTG INVESTOR	BSM	7310	10.00	10.0
TEXAS FIRST MORTGAGE REIT	TFMRS	7309	10.00	11.0
GULF MORTGAGE & REALTY INVESTMTS	GMR	7311	8.22	12.0
JUSTICE MORTGAGE INVESTORS	JMI	7309	7.47	13.0
FIDELCO GROWTH INVESTORS	FGI	7308	3.96	14.0
RLTY & MTG INVESTORS OF PACIFIC	RPACS	7311	2.50	15.0